



SME REPORT 2014

SUMMARY

2014 SME REPORT SUMMARY

IAnnie Geay
Bpifrance
Evaluation, research and forecasting department

ALREADY AFFECTED BY THE CRISIS, SMALL BUSINESSES IN 2013 WERE FACED WITH A FLAGGING ECONOMY THAT AFFECTED THEIR FINANCIAL PERFORMANCE. MARGINS SLIPPED ONCE AGAIN, CAUSING BUSINESS LEADERS TO BE EXCEPTIONALLY WARY ABOUT AN UNCERTAIN FUTURE. INVESTMENT FELL AS AN IMMEDIATE CONSEQUENCE AND THERE WAS A SHARP DIVISION BETWEEN DIFFERENT TYPES OF BUSINESS, WITH MICRO-BUSINESSES BEING HIT HARDEST. HOWEVER, WE ARE BEGINNING TO DISCERN A NEW BUSINESS LANDSCAPE POPULATED BY DYNAMIC SMES AND INTERMEDIATE-SIZED ENTERPRISES, BETTER AT INNOVATING AND EXPORTING, CAREFUL ABOUT MAINTAINING EMPLOYMENT AND SENSITIVE TO THE SOCIAL AND SOLIDARITY ECONOMY.

1. GENERAL TRENDS IN SMES AND INTERMEDIATE-SIZED ENTERPRISES IN FRANCE IN 2013

The near stagnation in the economy in 2013, which continued into 2014, caused business leaders to become very wary, to the extent of self-censorship, vis-à-vis any recovery in investment. The more dependent their businesses on household consumption, the more cautious they were about prospects.

Micro-businesses were the worst affected, with a widening gulf between them and the most innovative SMEs and intermediate-sized enterprises operating on international markets, which are also the most optimistic about an upswing in business in 2015.

BUSINESS START-UPS ARE ON THE INCREASE, IN SPITE OF A FALL IN "AUTO-ENTREPRENEUR" COMPANIES

Registrations of French simplified self-employment status businesses ["*auto entrepreneur*"] fell by 11%, offset by the 26% growth in other types of sole trader, and by traditional business new starts in general which began to gather pace once again.

Although the majority of these start-ups were private limited liability companies [SARL], the growth seen since 2011 in the number of simplified private limited companies [SAS] has held up well. However, these figures do not translate into any momentum of rising employment, with only 5% of companies hiring staff on set up.

A SLIGHT IMPROVEMENT IN HIRING PLANS IN SMES AND INTERMEDIATE-SIZED ENTERPRISES

Employment stabilised in 2013, but with sharp differences between industries. Employment fell in Construction, was slack in Industry and picked up slightly in the Commercial services sector.



SME REPORT 2014

SUMMARY

Micro-business saw its workforce shrink, and favoured employment on fixed term contracts. The slight upturn observed in 2014 came from larger SMEs and intermediate-sized enterprises, especially those involved in innovation and operating internationally. In spite of hiring intentions moving in the right direction, difficulties with recruitment are still being repeatedly flagged up.

A GREATER SHARE OF PUBLIC PROCUREMENT CONTRACTS FOR SMES

Although the volume of public contracts fell in 2012, particularly as a result of a sharp drop in works contracts, SMEs and intermediate-sized enterprises increased their respective share in terms of volume (93%) and number (78%). Buying locally, which is a feature of local authority procurement practice, benefits SMEs which win two thirds of these contracts, most of which specialise in service provision.

BUSINESS FAILURES IN ALL CATEGORIES OF BUSINESS

The 2009 crisis caused business failures to trend upwards, rising from an average of 50,000 to 60,000 per year. All business sectors are affected, with the bulk of failures concerning those sectors hit by flagging consumer demand.

Over 2,000 SMEs and intermediate-sized enterprises were put into compulsory liquidation, even though the courts now favour business recovery plans over liquidation for this category of business. On a more positive note, the number of SMEs and intermediate-sized enterprises as a proportion of total failures has stabilised in comparison to 2012, as has the number of insolvency proceedings opened against them.

MORE BUSINESSES ARE EXPORTING, THANKS TO MICRO-BUSINESSES AND SMES

Micro-businesses in particular were drivers of a rise in the number of exporting businesses in France, up 2.2% in 2013 compared to 2012. We should not however lose sight of the high turnover in exporting businesses in France – although one quarter of companies start to export each year, one quarter of companies cease to export. SMEs are dynamic exporters, with the volume of exports having risen to €194 billion above the pre-crisis level, but the number of these businesses is tending to stabilise.

Exports to the European Union, which account for two thirds of SME exports, are on the decline in favour of exports to Near and Middle Eastern countries, largely of refined oil products, which have risen by 59%. Unfortunately this seems to be more a reflection of contracts won by a few large SMEs and intermediate-sized enterprises than a mass trend.

SOCIAL AND SOLIDARITY ECONOMY BUSINESSES ARE NOW RECOGNISED IN LAW

The social and solidarity economy is made up of some 164,000 businesses of widely differing legal forms, although not-for-profit associations account for a large proportion of the total. It accounts for 16% of employment in France, and promises a substantial rise in hiring prospects by 2020. Employer groups play an important role in the social and solidarity economy. Founders favour them as they allow employees to be shared and are an effective means of exchanging experiences. Social work is the mainstay of most of these organisations, which are now better identified in law, and which generally have a single activity and operate locally.



SME REPORT 2014

SUMMARY

2. THE FALTERING ECONOMY IS AFFECTING THE FINANCIAL PERFORMANCE OF SMEs

PROFITABILITY IS STILL SHRINKING

Although SMEs are maintaining their value added, their margins are falling in the face of rising labour costs and production taxes. Their margin rate shrank from 22-23% before the crisis to around 20% in 2013, with a direct impact on profitability. At the same time, their working capital requirements, which are less volatile than the activity, are rising to reach between 30 and 33 days' sales.

The financial structure of SMEs is continuing to strengthen through an increase in equity and a change in the type of debt – we are seeing a contraction in bank borrowings and an expansion in bond borrowings.

CRAFT BUSINESSES ARE BEING UNDERMINED BY THE GLOOMY ECONOMIC CLIMATE

Craft businesses are mostly micro-business and so are seeing a fall in business activity and margins. The special spotlight on their financial situation reveals a mixed picture. Although two thirds of them have satisfactory proprietor's capital, these businesses, which account for one third of the market sector, are financially unsophisticated. They prefer to self-fund their capital expenditure, because of a huge reluctance to borrow from banks.

SHORT-TERM FINANCE IS VERY MUCH ON THE RISE, AS ARE LATE PAYMENTS

In the first half of 2013, corporate payment behaviour hit its nadir for the decade, improving only marginally at the beginning of 2014. Micro-businesses are being particularly badly treated by their customers while being more punctual with their own payments.

France holds the unfortunate European record for small delays in payment with enormously damaging consequences for many micro-businesses and SMEs which have very tenuous cash positions. The situation is made all the more critical by the fact that, while new investment loans appear to be approved at a rate of 84% for micro-businesses and at up to 92% for SMEs, when it comes to short-term loans only 61% are approved for micro-businesses and 70% for SMEs. On being made aware of this, the Fédération bancaire française committed in June 2014 to five pledges to meet the specific needs of this very diverse population.

The second source of short-term finance, after the overdraft widely used by micro-businesses, is invoice factoring which has risen from €130 billion in 2010 to €200 billion in 2013. The number of users has risen from 35,000 to 40,000 over the same period, 97% of which are micro-businesses and SMEs. The growing proportion of international business – now almost 24% – makes a notable contribution to this.

THE FRENCH VENTURE CAPITAL INDUSTRY IS AMONGST THE MOST DYNAMIC IN EUROPE

In 2013, it invested €6.5 billion in 1,560 businesses. Subscriptions by mutuals and insurance companies came to 25% of the €8.5 billion raised, putting them in top place from 2009 to 2013, just ahead of the public sector which is still very much involved, particularly in venture capital.

This happy trend does not apply to the French innovation mutual investment funds [*Fonds communs de placement dans l'innovation*, FCPI]. These funds are still on their downward trend and invested 16% less in innovative SMEs in 2013, so a dearth of short-term finance may be expected if there is no recovery in FCPI fundraising.



SME REPORT 2014

SUMMARY

ENTERNEXT, A NEW HELPING HAND FOR SMEs AND INTERMEDIATE-SIZED ENTERPRISES

Made up of 540 French businesses from Alternext and compartments B and C of Euronext, the new EnterNext market has introduced many practical initiatives to help SMEs and intermediate-sized enterprises access financial markets, with encouraging results. At the end of 2013, 26 flotations had taken place, raising €1.1 billion, evidence of investors' reawakened interest in mid-cap stocks. The bond market, too, is following suit on this upward trend.

SME FUNDING WORLDWIDE

According to the Organisation for Economic Co-operation and Development (OECD), SMEs worldwide still find it hard to access funding, although the difficulties appear to have reached a plateau, thanks to generally falling interest rates. But the hesitant recovery is acting as a drag on growth prospects in SMEs now facing a squeeze in the availability of credit. Situations diverge widely. In strongly growing countries such as Chile, Russia and Turkey, lending to SMEs is increasing sharply, whereas in countries facing a sovereign debt crisis such as Greece, Ireland and Portugal, lending has fallen away.

In the Asia-Pacific region, SMEs account for over 90% of businesses and have an increasing involvement in economic stimulus policies, which provide them with a variety of funding measures including a widespread availability of loan guarantees.

In Europe, surveys conducted by the European Central Bank (ECB) show the trend improving only at the end of 2012/beginning of 2013. In 2013, 40% of the twenty million SMEs in Europe said they still encountered funding problems and 22% stated they had been refused loans.

The European Investment Bank (EIB), which has had its capital boosted, stepped up its work in support of SMEs and intermediate-sized enterprises in 2013. It provided €22 billion against €13 billion in 2012, resulting in more than €50 billion being raised for 230,000 SMEs and intermediate-sized enterprises in Europe. It is trying to stimulate a wide variety of funding formats for them, and also to address exceptional situations (for example, Greek SMEs have received €1.5 billion).

3. MAINTAINING R&D MOMENTUM IN SMEs AND INTERMEDIATE-SIZED ENTERPRISES

SMEs AND INTERMEDIATE-SIZED ENTERPRISES ARE STILL ACTIVELY CONDUCTING R&D

In-house R&D expenditure continued to grow in France in 2012, reaching 2.23% of GDP (revised) thanks to business activities, to which SMEs and intermediate-sized enterprises contributed significantly. This increase, which has however slowed since 2010, held up in spite of the economic crisis, probably because of purposeful public sector support. Of those businesses carrying out R&D, 9 out of 10 employ fewer than 250 people. A typical SME conducting R&D employs 37 people, 5 of which are allocated to research and innovation work, and generates on average turnover of €9.1 million, pushing SMEs into top place as the business sector carrying out R&D most intensively, taking all categories of business together without distinction.

According to data on the French research tax credit [*Crédit d'impôt recherche*, CIR], their contractual relationship with public sector research laboratories stands out as a factor in their dynamism, since R&D expenditure subcontracted to them has increased by 226% since 2007, well above the average growth of 119%.



SME REPORT 2014

SUMMARY

With a greater uptake in terms of numbers since the 2008 reform, SMEs that are independent from the point of view of taxation received 25% of the CIR tax credit in 2012, amounting to €1.34 billion, and accounted for 76% of all recipients and 23% of reported expenditure. The 8% of recipients that were intermediate-sized enterprises received 34% of the research tax credit total.

SMEs and intermediate-sized enterprises account for 98% of businesses belonging to competitiveness clusters. Most of them are in Industry and target international markets – the greater their workforce, the more internationally-oriented they tend to be. SMEs generally specialise in Technical and scientific services and in the Digital economy. And finally, as proof of competitiveness clusters' cosmopolitan nature, one third of the intermediate-sized enterprises in them are foreign.

In 2013, the SME position vis-à-vis patent applications differed from that of intermediate-sized enterprises. Applications were slightly up for SMEs, an increase of 2.8% by comparison to 2012 with 2,662 applications registered, but down by 8.4% for intermediate-sized enterprises. However, the number of intermediate-sized enterprise patent extensions was very much higher than for all other categories of business. SMEs and intermediate-sized enterprises have a big presence in cutting-edge technologies, from data processing to medical.

The economic climate combined with the drop in public funding explains the fall in the number of innovative businesses being set up, particularly those coming from public business incubators. The young innovative enterprise tax regime [*Jeune entreprise innovante*, JEI] had helped 3,055 businesses by the end of 2012, of which 80% employed fewer than 10 employees. These JEI companies are mainly involved in business-to-business services and the digital economy.

INNOVATION EUROPE WORKING TOWARDS HORIZON 2020

After growing steadily up to 2012, innovation fell off in France in 2013, leaving the country in the "innovation followers" group of European countries. The global performance index shows France with results considerably below average when it comes to collaborative working practices.

In Horizon 2020, however, the programme set up by the European Union with the objective of reaching an R&D expenditure target of 3% of GDP by 2020, most of the new initiatives – including Eurostars-2, the Joint Technology Initiatives (JTIs) and also the Fast Track to Innovation (FTI) pilot – rely on the principle of creating partnerships with other organisations involved in R&D. This is therefore a challenge that French SMEs need to address.

MANY INITIATIVES PROMOTING R&D AND INNOVATION IN FRANCE

In addition to the industrial sector strategy and the 34 plans for a New Industrial France, the country's national innovation plan echoes not only the OECD recommendations but also those of the France 2020 report by the *France Stratégie* government department, which flags up France's weakness compared to its closest competitors. France, which already supports its start-ups well (the French annual innovative start-up competition and public sector incubators have helped set up over 3,000 businesses in 13 years), must direct its efforts to supporting longer term SME growth.

The OECD's recommendation is to return to the tradition of scientific and technological excellence, which involves making stark choices. The second French Investments for the Future programme and also the Innovation 2030 competition are in line this strategy, which is supported by a brand-new and crucial evaluation tool, the National Innovation Policies Evaluation Committee [*Commission nationale d'évaluation des politiques d'innovation*], set up in June 2014.



End of the summary

